



Economic Trends Report

Egypt

September 2004

Embassy of the United States of America

The information in this report covers developments until August 1, 2004.
This report does not reflect the new economic policies and programs implemented by the Government of Egypt after that date.

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MAJOR TRENDS AND OUTLOOK

Led by strong external earnings, Egypt's economy posted a modest recovery from mid-2003 through mid-2004, but uneven progress on economic reform kept the recovery less pronounced than it might have been. Overall economic growth for the fiscal year which ended June 30, 2004 (FY 2003/2004 or FY 03/04) probably was in the 3-4% range. While better than the 1-2% annual growth since 2000, growth remains insufficient to absorb the estimated 700,000-800,000 new labor market entrants per year, and official unemployment climbed to 10.7% by the start of 2004 from 9.9% in 2003. The 25% depreciation of the Egyptian currency (pound or LE) since early January 2003 contributed to a significant increase in inflation, which probably was in the double digits in 2003, although official data is confusing. The official inflation rate was 5.5% as of December 2003 while the real rate was probably closer to the also official wholesale price index rate of 16.1%. We expect depreciation-driven inflation to level out by the end of 2004 provided no new pressures on the foreign exchange market emerge and international prices of Egypt's main imports remain stable. Under the leadership of a new Governor, the Central Bank of Egypt (CBE) gradually tightened monetary policy and raised money market interest rates significantly in the first half of 2004. The tighter monetary policy, combined with a growing current account surplus (which we estimate at \$3-3.5 billion for FY 03/04) has improved availability of foreign exchange and almost completely eliminated the gap between the legal and black market exchange rates, although foreign exchange is still not always available on demand and the rate still not fully market determined. The budget deficit continues to grow, fueled by increases in explicit and implicit subsidies meant to ease the pain of price increases for the public, the ever-growing public wage bill, and the growing cost of servicing the national debt. Unless addressed, the growing deficit could negatively impact the ability to conduct an independent monetary policy and crowd out private sector borrowing.

The new cabinet named in July 2004 includes a Prime Minister and several ministers seen as part of a new generation of younger, more reform-minded officials. In particular, it includes several ministers with key economic portfolios who have strong economic reform credentials. Major tasks facing it include reforming the customs and tax regimes and other aspects of the business environment to attract new investment and create jobs, and better targeting subsidies and other social expenditures to ensure that the truly needy are assisted without overwhelming the budget. Should it succeed in some of these goals without facing additional exogenous shocks, economic growth could return to the 4-6% levels attained in the late 1990's.

Performance across various sectors of the economy has been uneven. Tourism arrivals topped six million for the first time in 2003 and, with hotel room rates recovering, tourism looks set to break both arrival and revenue records in 2004. Likewise, Suez Canal revenues remain at or above their 2003 record levels. Domestic demand for steel, cement and other construction material remains relatively flat, but a weaker pound and strong regional demand have induced strong export performance and an overall increase in output and prices. Production and sales of automobiles and other consumer durables also picked up somewhat, although margins were squeezed. A steady stream of

discoveries continues to add to Egypt's gas reserves and production, and Egypt's first two liquefied natural gas (LNG) plants should come on line in late 2004 and mid-2005, respectively. The banking sector's performance remained constrained by a large non-performing loan (NPL) burden, slow loan growth, and problems with foreign exchange availability. Some banks reported that the availability of foreign exchange has been improving since the beginning of 2004. Banking reform, privatization, and measures to deal with NPLs became major issues of both internal governmental and public debate in 2004, but few concrete changes had been implemented by mid-2004. The pace of privatization remained depressed, but the stock market enjoyed an almost uninterrupted bull run from February 2003 through early 2004, although it has been somewhat quieter since then.

Aside from the growing budget deficit, Egypt still has strong factors in its favor. Foreign debt and debt service remain low, with most debt long-term and concessional. Egypt's foreign exchange reserves are capable of covering more than ten months of imports, and the outlook for some sectors of the economy that are main foreign exchange earners, particularly tourism and gas, is bright. While Egypt's economic prospects will continue to be subject to global and regional shocks, promising opportunities for growth and development exist.

KEY ECONOMIC TRENDS AND ISSUES

Macroeconomic Outlook: After three years of weak economic performance, buffeted by both external shocks (the Palestinian Intifadah, September 11, the Iraq war) and an apparent decrease in the vigor of its economic reform program, Egypt's economy has staged a modest recovery since early 2003. Official figures estimate real growth for the fiscal year which ended June 30, 2004 (FY 03/04) at 4.3%, compared with the official figure of 3.2% real growth for FY 02/03. With annual population growth at just under 2%, that would put real GDP per capita growth at slightly over 2%. Most outside observers concur that the economy grew more strongly in FY 03/04 than in the previous three years, and put growth for FY 03/04 in the 3-4% range, slightly lower than the government's estimate. The government hopes for 5% real GDP growth in FY 04/05.

Using the consumer price index (CPI), the government estimated the inflation rate at 4% for FY 02/03 and a slightly higher 5.5% for calendar year 2003. The wholesale price index (WPI), however, rose 21.4% from April 2003 to April 2004, implying stronger underlying inflationary pressures. A variety of subsidies and price controls protect consumers, and inflation in housing costs is very low, but we believe the full impact of price increases may have been in the 10-15% range. The wholesale index may be a better reflection of the increase in the cost of living for the middle and upper classes, which rely less on subsidized commodities and services and more on imported ones. In August 2003, the government began using a new calculation of the official CPI, based on a 1999/2000 consumption and expenditure survey instead of the previously used 1995/1996 survey. While relatively little data are available from the new CPI, it appears to imply an inflation rate much closer to the WPI. An estimate calculated from accumulating this monthly official inflation rate puts 10-month inflation at 11% in May 2004.

Unemployment was officially estimated at 10.7% as of January 2004, up from 9.9% in FY 02/03, 9% in FY 01/02 and 9.2% in FY 00/01. The previous years' figures reflect upward revisions in June 2002 and June 2003. Other observers suggest the effective rate of unemployment is significantly higher. Under-employment and reliance on the informal economy (often estimated at one third to one half the size of official GDP) are also major features of Egypt's economy, as in most developing countries. Government figures for the fiscal year FY 02/03 indicate that, out of a total work force of 20.2 million and total employment of 18.2 million, 6.9 million individuals are employed in the "irregular private sector," compared with only 5.1 million in the formal private sector, 5.3 million in the government, and 900,000 in state-owned enterprises. Government and private estimates put the number of job seekers entering the labor market annually at anywhere from 700,000 and 800,000. Even during the high-growth years of the 1990s, employment creation did not fully meet the demand for jobs. The sluggish growth of recent years has widened the gap between the number of job seekers and available employment, particularly for the better educated.

Foreign debt stood at \$29.4 billion as of March 2004, according to government statistics. It has remained relatively constant in absolute terms in recent years, aside from a slight increase in 2001 and early 2002 as a result of the government's floating of a \$1.5 billion Eurobond offering. It has, however, increased as a percentage of GDP in dollar terms from under 30% in 2000 to 39.7% as of March 2004 because of the pound's devaluation. Over three quarters of that debt is sovereign, with a major portion of it concessional and long-term. Debt service remains comfortable, at 9.5% of annual current-account receipts as of March 2004.

Two international rating agencies -- Standard and Poor's (S&P) and Fitch IBCA -- kept Egypt's sovereign credit rating at the speculative grade of BB+ this past year, having downgraded it from the investment grade BBB- rating in mid-2002. In August 2003, Standard and Poor's also downgraded Egypt's long-term sovereign local currency rating from BBB to BBB- and revised the outlook for all of its local and foreign currency ratings from Stable to Negative. The prime reasons cited by both agencies for these series of downgrades were the expanding fiscal deficit and domestic debt, continuing problems in foreign exchange availability, and the overall slowdown in economic reform. In December 2003, Fitch downgraded its outlook on Egypt's long-term local currency BBB rating from Stable to Negative and affirmed the other ratings at long-term foreign currency BB+ with a Stable Outlook, and short-term at B. Fitch cited various reasons for the downgraded local currency outlook, some of which could be detrimental to Egypt's growth and sovereign credit ratings. These included Egypt's deteriorating public finances compared to its peer countries, the negative impact of the floating of the pound on the budget, and the weakness in the overall policy environment resulting from inadequate monetary and exchange rate policies. Rating agencies however continue to emphasize the improvement in Egypt's external position and generally positive, although slow, movement on other economic reform issues.

Fiscal Developments: Although data are confusing and non-transparent, the government's fiscal balance appeared to continue its deterioration over the past year, despite some pick-up in revenues, and additional budgetary reforms are crucial to avoid further deterioration. Fiscal prudence has been a growing concern for donors, international financial institutions, and business over the past several years. International ratings agencies have warned of lower credit ratings for Egypt if the growing budget deficit is not curbed. The method of the budget's presentation and publication is confusing and non-transparent. Published figures are highly aggregated, with no breakdowns provided for individual ministries and agencies. There is even less information available about off-budget outlays, particularly those of the National Investment Bank (NIB), which channels resources from the various social insurance funds and postal savings accounts to fund the government's investment priorities.

In 2002, the government revised its accounting method for budgetary "out-turns" (i.e., completed periods) to show three increasingly broad measures of the budget and deficits: a narrow budget that includes only line government agencies and programs; a broader definition that includes transfers to or from independent state-owned agencies, and a third definition that also includes the social insurance funds (social security), currently in surplus because of Egypt's growing working-age population. Earlier estimates of the budget deficit were based on features of the first and second definitions; the government now appears to have adopted the broadest definition as its benchmark of the deficit. Unfortunately, the format in which budget proposals are presented to the People's Assembly (Egypt's parliament) does not match the IMF budget-reporting format, making comparison of past budget results and proposed future budget projections difficult.

The government has revised its estimates of past budget deficits upwards several times in recent years. Based on the government's current reported figures in the new format, the budget deficit grew from 5.6% of GDP by the narrowest measure and 2.2% of GDP by the broadest measure in FY 00/01 to 5.9% (narrow) and 2.5% (broad) in FY 01/02, and to 6.1% (narrow) and 2.4% (broad) in FY 02/03. The government estimates the deficit for 2003/04 at 5.6% (narrow) and 2.3% (broad). Through the first half of FY 03/04, government figures on quarterly out-turns showed the deficit as 3% (narrow) and 2% (broad) of projected annual GDP. Normally end-of-year transfers from the social investment funds' surplus and other revenue streams result in better annual figures than earlier out-turns might suggest, but higher spending in the second half of FY 03/04 on subsidies may counter that trend.

According to the published document reflecting the projected budget approved by the People's Assembly, the FY 04/05 budget (July 2004-June 2005) will include total expenditures of LE 177.4 billion (an increase of LE 17.8 billion, or 11%, over the originally planned budget for FY 03/04). It estimates total revenues of LE 125.1 billion (an increase of LE 8.6 billion, or 7.4% over the projected figures for FY 03/04). It projects a total deficit of LE 52.3 billion, or 10.5% of GDP based on an expected GDP of LE 498 billion and a GDP growth rate of 5%. The deficit will be financed by treasury bills and bonds (LE 37.5 billion) and other local and foreign loans (LE 1.6 billion) and "savings" (LE 13.3 billion), a term that generally refers to the surplus in the government's

social insurance funds (the universal pension or social security system). Including that surplus reduces the deficit to LE 39 billion, which is the figure the government used when it announced a projected budget deficit of 7.5% of GDP in 04/05, compared to the projected budget deficit figure of 6.7% for FY 03/04. The People's Assembly approved the budget in June 2004. (See annex for a copy of the proposed budget.)

In addition to traditional social objectives and the protection of the poor, the government's stated budgetary priorities include curbing the budget deficit, reducing unemployment, raising the quality of local products, rationalizing imports and increasing exports, restructuring public debt, improving financial management, and increasing investments. The largest proportion of the planned FY 04/05 budget, at LE 76 billion, or 43% of total expenditures, is earmarked for social expenditures, including LE 9.1 billion for health and LE 25.9 billion for education. A further LE 50.2 billion will pay for servicing principal and interest on the government's domestic debt (LE 34 billion interest, LE 8.2 billion principal) and foreign debt (LE 3.7 billion interest, LE 4.3 billion principal). Nearly one quarter of the budget, or LE 42.6 billion, will go to paying the public sector wage bill (including the annual 10% wage increase for government employees), up from the projected LE 38.6 billion for FY 03/04.

The budget projects LE 15.6 billion for direct subsidies covering basic commodities and services, principally sugar, bread, and transportation, almost double the initial planning figure of LE 8 billion for FY 03/04. The increase resulted from both the pound's devaluation (which required an increase in subsidies on imported goods to keep prices for subsidized goods stable) and the government's decision to add additional items (including rice, fava beans, lentil, ghee, tea, and macaroni) to the 60-year old ration card system, which previously had included only cooking oil and sugar. According to the published budget, direct subsidies in FY 04/05 will include LE 11.6 billion for basic food products, LE 1.7 billion for low-income housing, LE 263 million for farmers, LE 359 million for public transportation, LE 530 million for pharmaceuticals and student health insurance, LE 500 million for export development, and LE 300 million for cotton. Indirect subsidies for energy in FY 04/05 are even larger. According to the Minister of Finance, indirect subsidies for energy products will total LE 23.4 billion, including LE 3.2 billion for electricity and LE 20.2 billion for below-cost sales of butane gas and diesel to consumers and similar sales of natural gas to utilities and industry. This figure actually may understate the true cost of providing below-market price energy (see energy section), as the Minister of Petroleum estimated the total cost of explicit and implicit energy subsidies in FY 03/04 at over LE 30 billion.

The LE 85 billion-investment budget (LE 29.4 billion from the government and economic authorities and LE 55.6 billion from holding companies, public enterprises and the private sector) will support government "mega-projects" such as the Toshka agricultural scheme (see agriculture section), the Al Salam canal for channeling irrigation water to North Sinai, and the East Port Said development project, as well as other infrastructure priorities.

Projected total revenues for FY 04/05 (not including the Social Insurance Funds surplus) increase by 7.4% over the FY 03/04 planned figures to LE 125.1 billion. Sovereign revenues of LE 83.2 billion include personal and corporate income tax revenues (projected to increase by 7.3% over the FY 03/04 plan to LE 35.3 billion), customs revenues (up 3.3% to LE 15.6 billion), and sales tax revenues (up 8% to LE 24.5 billion). Current revenues (LE 28.1 billion in transfers of profits from state-owned banks, companies and other economic authorities, LE 7.2 billion in Suez Canal transit revenues, LE 4.5 billion in transfers from the state-owned Egyptian General Petroleum Company, LE 6 billion in transfers from the Central Bank, and LE 10.9 billion from other sources) are projected to increase 13.3%, from LE 27.7 billion in FY 03/04 to LE 31.4 billion in FY 04/05.

The budget plan calls for FY 04/05 total expenditures to grow at 1.5 times the growth rate of total revenues. Whether those projections hold depends on the government's success both in projecting and then managing expenditures and revenues. Although tax and customs revenues had been projected at LE 65 billion in FY 00/01 and LE 69 billion in FY 01/02, they in fact remained flat at around LE 51 billion in both periods, as Egypt's recession reduced imports, incomes, and sales. Tax revenues grew to LE 57.5 billion in 02/03, but that was still well below the budget plan of LE 65 billion. Tax revenues for the first three quarters of FY 03/04 (July 2003-March 2004) were running about 21% higher than for the same period in FY 02/03, but were still unlikely to hit the planned figure of over LE 70 billion. Increased revenues from other sources (e.g., higher Suez Canal revenues) and cutbacks in spending are likely to close part of that gap, but we estimate that, absent additional measures to close the gap, the budget deficit could still be higher than the government projections, both for the just-completed fiscal year and FY 04/05.

Egypt's expansionary fiscal policy over the past several years may have been appropriate in the context of cushioning the impact of the recession, particularly on the lower classes. However, continued growth in the deficit could crowd out credit for the private sector as the economic recovery gathers additional strength. Economic analysts estimate that the government and public sector took 50% or more of new bank credit over the 2003-2004 period. That was largely due to weak private sector demand, which should change as the economy picks up. Moreover, the growing fiscal deficit could affect the Central Bank's ability to control monetary policy.

The above analysis suggests the need for a comprehensive review of Egypt's fiscal policies, on both the revenue and expenditure side. Addressing the growing size of direct and indirect subsidies for commodities (particularly energy, as noted elsewhere in this report) will be a particular challenge. The ruling National Democratic Party's economic platform, issued in September 2002, called for more targeting of subsidies, but little progress has occurred since then. The government committed at the Donors Consultative Group Meeting in February 2002 to perform a comprehensive public expenditures review, to include, inter alia, its entire method for estimating both expenditures and revenues, as well as the activities of the NIB. This review, however has not yet been done. In June 2004, the government agreed to undertake with the World Bank a much

more limited review of public expenditures in the areas of health, education, and water. We understand that there is agreement that this initial study should lead over time to a more comprehensive review.

Plans for revenue reform are proceeding slower than anticipated. New personal and corporate income tax legislation that would reduce corporate tax rates from above 40% to an average of 30% was originally planned to be introduced in the parliamentary session that started in November 2002. Twice delayed, it is now scheduled for consideration in the session beginning in November 2004. The government says it will present a new draft customs law to the People's Assembly in the same session, but as of July 2004, the draft had not yet been presented to the cabinet. The government's expectation is that lower, more uniform, and more transparent rates, combined with better enforcement, will stimulate growth, reduce tax evasion, and increase revenues in the mid to long term. In May 2004, the government announced, to significant public disapproval, new fees and sales taxes on air travel, car sales, mobile and fixed phone services, and touristic transportation and services. The government projects that these fees and taxes will raise a total of LE 1.5 billion annually in new revenues. During its annual IMF Article-IV discussions, the government said that it would take additional measures during FY 04/05 to reduce the budget deficit by approximately 1% of GDP.

In April 2004, Egypt's semi-autonomous Central Auditing Agency (CAA), which reviews actual budget figures two years after the fiscal year ends, again sharply criticized the government's fiscal management, based on its review of the FY 01/02 budget returns. The CAA noted, however, that the discrepancy between projected and realized budget figures is decreasing.

Monetary Developments: By mid 2004 there were hopeful signs that Egypt's foreign exchange regime is at last stabilizing, with the exchange-rate gap between the legal and parallel markets narrowing to less than 1%, and the availability of foreign exchange increasing significantly. These positive developments came after a change in monetary policy in 2003, following several years of consecutive devaluations, limited availability of foreign exchange in the legal market with large gaps between the legal and black market rates of exchange, and frequent changes in monetary policy. The government has been seeking a new monetary and foreign exchange policy since it abandoned in mid-2000 its fixed peg of LE 3.4/\$. The fixed peg had been in place since the early 1990s, but had become progressively overvalued, leading to a deterioration in Egypt's balance of payments and foreign exchange reserves. After abandoning the fixed peg, the government first pursued a crawling or adjustable peg system with a trading band, which took the pound, via a succession of devaluations, to LE 4.51/\$ (with a 3% band) in January 2002, with a legal maximum dollar selling rate of LE 4.645/\$.

None of the devaluations was successful in bringing supply and demand of foreign exchange in the legal market back into balance. A sizeable foreign exchange black market emerged, with premiums at times exceeding 10% of the legal exchange rate. Following former Prime Minister Ebeid's surprise announcement in January 2003 that banks would be allowed to freely set their own exchange targets, the legal rate

immediately depreciated to around LE 5.35/\$, the prevailing black market rate. The pound continued to depreciate steadily against the dollar over the next several months, to around LE 6.15/\$ in August 2003. It has been much more stable since that time, depreciating to approximately the LE 6.25-6.30/\$ range by the end of August 2004.

Despite the depreciation, foreign-exchange liquidity and turnover remained problems into 2004. Sales of foreign exchange to banks increased very slowly. Rules to govern interbank foreign exchange trading, promised for the past year, have not yet been published, and there is in practice almost no interbank trading of foreign exchange because banks are focused on meeting their own clients' needs.

The government instituted a foreign exchange surrender requirement in March 2003 (Prime Ministerial decree 506 of 2003) which stipulated that enterprises that engage in foreign exchange-generating activities were required to sell 75% of their foreign-exchange revenues to banks within one week of their receipt. That requirement remained in effect as of the end of August 2004. Despite numerous stories in late 2003 and early 2004 of exporters having their license revoked for failure to comply with the surrender requirement, its implementation remained spotty, and its success in channeling foreign exchange flows in to the legal market was limited.

Following an initial tightening of monetary policy by the Central Bank and an increase in interest rates in early 2003, interest rates began to fall again. Interbank rates, which averaged 7.4% in 2002, dropped to 4% at the beginning of 2003, and rose to a peak at 13.2% in May before returning to 4.7% in December 2003. Interest rates on treasury bills also fell, from 10.27% in June 2003 to 6.95% in December 2003, possibly putting real interest rates in the negative range. Commercial lending rates remained in the 13-14% range, and deposit rates declined slightly. On the domestic liquidity front, total liquidity (M-2) grew 14% year-on-year (YOY) from April 2003 through April 2004, compared to 16.9% in FY 02/03. However, if the cumulative effect of devaluation on foreign currency deposits is discounted, it grew 13% YOY (April 03/April 04), compared with 11% YOY (April 02/April 03). According to government figures, dollarization (foreign currency deposits as a percentage of total liquidity) was 28.4% in March 2004.

In December 2003, Farouk El Okdah, Chairman of the National Bank of Egypt (NBE) from November 2002 and a long-time executive at Bank of New York, was named the new Governor of the Central Bank, replacing Mahmoud Abul Eyoum. Since then, the Central Bank has gradually tightened monetary policy and raised money market interest rates to help stabilize inflation and the pound. Rates for treasury bills rose from 6.77% in January 2004 to 11.2% by the end of June 2004, and inter-bank overnight rates rose over the same period from 5.9% to 9.2%. The Central Bank also introduced a variety of new deposit instruments with higher interest rates that helped further withdraw liquidity from the banking market.

The Central Bank also reportedly began to sell a significant amount of dollars quietly through the large state-owned banks. The combination of the tighter monetary policy, increased dollar sales, and higher foreign exchange inflows helped to improve foreign

currency availability in the legal market and reduce the black market premium. The black market rate fell from around LE 6.80/\$ in December 2003 to the LE 6.25-6.30/\$ range by the end of August 2004, while the legal rate edged up from LE 6.15/\$ to about LE 6.21/\$. Banks reported that their backlogs of request for letters of credits had been sharply reduced or even eliminated.

The government and CBE recognize that a flexible exchange regime requires a much more sophisticated monetary policy and improved technical expertise. The new Central Bank Governor has reiterated the CBE's intent to move toward an inflation-targeting monetary policy, with short-term interest rates as the operational target and changes in reserves money the nominal anchor. It expects to phase this policy in over a period of two years or more as staff expertise is upgraded to meet the demands of such a policy. The new banking law passed in June 2003 mandated a joint government-CBE monetary policy coordination committee that would set the goals of monetary policy, while leaving the CBE free to determine what monetary tools it would use to implement that policy. In practice, the Central Bank board of directors named in December 2003 appears to be acting as the policy coordination committee.

The Central Bank's ability to hire and retain technically qualified staff in its monetary policy and foreign exchange trading units will be critical to the success of its effort to operate an effective monetary policy. Development of new instruments and procedures for open market operations also will be important. The CBE has embarked on a program to hire more qualified staff, with assistance from the United States Agency for International Development (USAID) and other donors. It also implemented a 40% pay increase for professional staff in early 2004. On July 6, 2004, the first auction of government securities took place under the primary dealers system authorized by a June 2002 Ministry of Finance decree (see capital market section below). This development is encouraging, but it is too soon to say how effective it will be in setting market-determined interest rates and establishing a yield curve for securities of different maturities, both of which have been stated as key objectives for the system. Introduction of rules for the interbank foreign exchange market, which have been promised for over a year, would also help regularize the system.

Privatization: Despite continuing pronouncements of the government's dedication to privatization, very few state-owned assets were actually sold off during FY 03/04. The slowdown in the Egyptian privatization program, evident since mid-2000, has been a source of concern for many economic observers, especially international rating agencies, who consider the pace an indicator of the government's willingness to move forward on economic reform. Senior officials, including the Prime Minister, continued to emphasize Egypt's commitment to the program, and announced several policy changes to the program in 2003/04 designed to make companies more attractive. In 2003, the Ministry of Public Enterprise announced its intent to offer shares of some state-owned companies to private investors through capital increases. The concept was to introduce private sector management and ownership into these companies. The sector buy-ins would provide capital for restructuring and gradually privatize management, with the expectation that the private share would grow over time as the companies reformed. In

early 2004 the Cabinet approved additional incentives, including allowing the transfer of excess and idle assets, some working capital items, and liabilities to the holding companies to make public companies more attractive for investors. Unfortunately, these efforts appeared to have had little effect on actual sales. From 1993 to 2000, 171 public companies were privatized, generating a total of LE 15.45 billion in proceeds. On average, 20-25 companies were privatized annually during this period, generating LE 2-3 billion annually. The pace of privatization then slowed sharply, with 13 privatization transactions carried out in 2001 (generating LE 1.1 billion), six in 2002 (generating LE 51.2 million) and nine in 2003 (generating LE 114 million). Further steps toward divesting the government's still-extensive ownership in key sectors of the economy would attract more foreign investment to modernize production capabilities, allow the private sector to pursue a more active role in economic activity, ensure more efficient allocation of economic resources, and increase local and ultimately external competitiveness. Progress on privatization in the banking sector, where four state-owned banks still control roughly half of all assets and have significant further influence through their shareholdings in many other banks, is particularly critical.

In July 2004, a major Cabinet change resulted in the creation of a Ministry of Investment, headed by one of Egypt's leading economic reform advocates, with a mandate to encourage and increase investments in Egypt. The new ministry replaces the former Ministry of Public Enterprise (and takes over its portfolio of Law 203 companies and joint venture companies included in the privatization program). It also supervises the General Authority for Free Zones and Investment (GAFI), Capital Market Authority (CMA), the Egyptian Insurance Supervisory Authority (EISA), the Cairo and Alexandria Stock Exchange (CASE), the Management Development Center for Public Enterprise, and the General Authority for Real Estate. Economists and international observers are optimistic about the change in privatization leadership, which could lead to an increase in foreign direct investment and a reduction in the budgetary burden posed by unprofitable state-owned enterprises.

Balance of Payments: Egypt's Merchandise Trade and Current Account balances have improved dramatically over the past year because of improved foreign exchange revenues, but weak investment flows and uncertainty about policy have kept the Capital Account in the red. A switch in the Balance of Payments (BOP) to a surplus in FY 02/03 was an achievement that will not be repeated in FY 03/04. The first nine months of FY 03/04 registered a BOP deficit of \$535 million, compared to \$52 million deficit in the same period in FY 02/03. However, the Trade and Current Account balances turned in their best performances in at least five years, while Capital Account movements continued to reflect lower local investment and higher banking investments abroad. Figures for the first nine months of the 2003/2004 fiscal year (July-March) (9MFY 03/04) show a relatively stable trade deficit of \$5.4 billion in FY 03/04, compared to \$5.3 billion in the same period in FY 02/03. The Current Account balance showed a surplus of \$2.7 billion in 9MFY 03/04, nearly quadruple the \$0.7 billion surplus in the 9MFY 02/03. The Capital Account registered a deficit of \$4.8 billion, nearly double the \$2.8 billion deficit in the full FY 02/03.

Through mid-2002, the main factor in the improved performance in the Current Account was a sharp decline in imports, from \$17.8 billion in FY 99/00 to \$14.6 billion in FY 01/02, rather than any improvement in merchandise or service exports. The picture has changed somewhat since then, with improvement in the Trade balance coming chiefly from higher exports, as the cheaper pound made Egyptian products more competitive and oil prices rose. In FY 02/03 imports were relatively stable at \$14.8 billion and exports increased 15% to \$8.2 billion from an average of \$7 billion in FY 00/01 and FY 01/02. Total exports (oil and non-oil) increased to \$7.4 billion through the first nine months of FY 03/04, up 25% over the \$5.9 billion over the same period in FY 02/03. Imports, which had stagnated as a result of the credit and foreign exchange crunch in 02/03, began increasing again, registering \$12.8 billion in 9MFY 03/04 compared to \$11.2 billion in the 9MFY 02/03. Suez Canal revenues continued to surge in 2003/2004, to \$2.1 billion in 9MFY 03/04 and \$2.8 billion for the full FY 03/04, up nearly 22% on the full FY 02/03 revenue of \$2.3 billion. In spite of negative expectations for 2003, tourism continued to recover, with yet higher record tourist arrivals and revenues of \$4.2 billion in the first nine months of FY 03/04, a 40% increase over revenues for the same period in FY 02/03. On the strength of the increased export and service revenues, Egypt's Current Account surplus nearly quadrupled year on year, from \$770 million in the first nine months of FY 02/03 to \$2.7 billion during the same period in FY 03/04. The Current Account surplus is expected to be at least in the \$3-3.5 billion range for the full fiscal year 2003/2004.

The Capital Account, although deteriorating in balance from a deficit of \$1.7 billion in 9MFY 02/03 to a deficit of \$4.8 billion in 9MFY 03/04, does not actually reflect a totally pessimistic picture. The poor performance in FY 02/03 and first nine months of FY 03/04 was mainly the result of a large net outflow in Other Investments. According to banking sources, this outflow was necessitated by the large increase in foreign-exchange-denominated accounts in Egyptian banks, which the banks, in turn, placed in overseas investments to enable them to pay interest to their depositors in Egypt. Despite the size of the outflow, it represented a generally positive development from an economic point of view. Foreign direct investment remained depressed, registering only \$184 million in 9MFY 03/04, compared with \$578 million in 9MFY 02/03. Portfolio Investment, although still in the red YOY, switched to a net inflow in the third quarter of FY 03/04. Net Errors and Omissions nearly doubled in 9MFY 03/04 registering \$1.6 billion compared with \$910 million in 9MFY 02/03, possibly reflecting unaccounted inflows from tourism or other foreign exchange earnings. Although positive this year, the consistently high figures in this category causes some concern about the government's ability to track financial flows.

Absent external shocks, a rebound in tourism and higher gas and merchandise exports should further sustain a positive Current Account balance over the coming year. Additionally, implementation of more serious economic reform measures to improve the overall policy environment could attract more foreign direct and portfolio investment, reverse capital flight, and turn the Capital Account around. On the other hand, without further improvements in the policy environment, even improvements in the Current Account will be short lived.

Direction and Composition of Trade: The European Union (EU) as a bloc remains Egypt's largest trading partner, accounting for 34% of both its imports and exports in 2003. Egypt's partnership agreement with the EU, which came fully into force in June 2004, should result in a significantly larger volume of trade. The United States is Egypt's next largest trading partner, and its largest trading partner as a country. It accounted for around 12.7% of Egypt's exports and 17.6% of its imports in 2003. Asian countries account for around 12% of exports and 14.5% of imports. Arab countries take 10% of exports and account for about 7% of imports, while Africa, Russia, and Commonwealth countries and Australia take up the rear.

Egypt's leading merchandise export is crude oil and petroleum products (\$3.5 billion in 2003), followed by finished goods (chiefly steel, textiles and apparel), and raw materials (cotton and other agricultural products). From 2002 to 2003, steel exports (particularly to the U.S. and EU) grew sharply, from \$137 million to \$238 million. Egyptian steel producers looked beyond the weak domestic market, as their competitiveness was improved by the pound's depreciation, U.S. and EU restrictions on other steel imports, and a construction boom in the Gulf. Cement producers also became major exporters in 2003, principally to the Gulf. Leading imports include intermediate goods (especially iron and steel products) and raw materials. Imports of investment goods dropped 8.5% from \$3.1 billion in 2002 to \$2.8 billion in 2003. Although government officials and the media routinely decry the import of "luxury goods," consumer goods accounted for only 17% of all imports in 2003, falling from \$2.8 billion in 2002 to \$2.5 billion in 2003.

Chief U.S. exports to Egypt include agricultural commodities (usually around \$1 billion annually), capital goods, and equipment. The value of U.S. exports shrank over the last two years, from nearly \$3.8 billion in 2001 to under \$2.6 billion in 2003, largely in line with the drop in overall Egyptian imports. A poor 2002 American crop and high prices decreased the U.S. share of the Egyptian wheat market from its usual 50% or more to just 25% in the 2002/03 marketing year, but wheat exports rebounded in 2003 to around half a billion dollars. Egypt's exports to the U.S. had averaged \$700-900 million in recent years, but jumped to \$1.1 billion in 2003. Clothing, other textiles, crude oil, and oil products have typically been the largest exports. Egyptian steel exports to the U.S. also increased significantly from \$24 million in 2001 to \$94 million in 2002, and totaled \$74 million in 2003.

We caution that Egyptian trade and balance-of-payments data remain confusing and often contradictory. The balance-of-payments figures, for example, include the payments made by the government to foreign oil and gas companies for their share of domestic production bought by the government and used in Egypt, and thus probably overstate imports in general. They also may include payments for transactions in which the Egyptian participant was a broker for a transaction between two other countries, as in trade figures for Iraq. Finally, balance-of-payment figures may report payments made to financial center banks (such as in New York) rather than recording the ultimate recipient, skewing the individual country trade statistics. Customs figures, on the other hand, appear to understate oil and perhaps other exports. The truth probably lies somewhere between the balance-of-payment statistics (always higher for both imports and exports)

and customs figures. In reporting bilateral trade with the United States, we have relied solely on U.S. government statistics. For other countries and regions, we have used a mixture of Egyptian customs and balance of payments figures and data from Egypt's trading partners.

MAJOR LEGISLATIVE AND REGULATORY DEVELOPMENTS

New legislation passed by the People's Assembly in the 2003/04 parliamentary session that ended in June 2004 included the Electronic Signature law, the Small and Micro Enterprises law, and several bills amending the Investment Incentives law, Sales Tax and Development Duty laws, Customs law, the Capital Market and Real Estate Finance laws, and the new Banking law.

Labor Law: As of October 2003, the Minister of Manpower and Migration had issued over 20 decrees regulating the application of the new labor law (Law 12 of 2003).

Electronic Signature (E-Signature) Law: On April 17, 2004, the People's Assembly approved Law 15 of 2004 (the Electronic Signature Law). This new law makes electronic signatures valid and authorizes the establishment of the Information Technology Development Authority (ITDA). The ITDA's primary objectives are to encourage investments and promote exports of IT products and services. It also has the authority to issue licenses for companies, approve e-signatures, and archive intellectual property rights applications.

Banking Law: Several decrees were issued in early 2004 to bring into force the Banking law passed in 2003 (Law 88 of 2003, see banking section). In February 2004 the new charter of the Central Bank of Egypt was issued in presidential decree number 64 of 2004. In March 2004, the executive regulations of the new Banking law were issued according to presidential decree number 101 of 2004. The regulations mainly organize the operation of the coordinating council, the establishment and ownership of banks, the establishment of a credit data collection system, and the regulation of the foreign exchange market.

Customs on Ready-Made Garments: Presidential decree number 35 issued in January 2004 brought Egypt's custom duties on ready-made garments and fabric imports in line with its WTO commitments (a maximum binding rate of 40% for garments). The new ad valorem (percentage of value) tariffs replaced excessively high per-piece tariffs on garments, which had been introduced in January 2002, and which the U.S. challenged in the WTO in December 2003. Ministerial decrees numbers 68 and 69 issued in February 2004 stipulated that factories wishing to export to Egypt would need to register with the Egyptian General Organization for Import and Export Controls (GOIEC) and certify that they met international labor, health, and environmental standards, a process that could include visits to the factories (at factory expense) by GOIEC inspectors. Few details about this process or the impact of the new tariffs on Egypt's trade are available thus far.

Investment Incentives Law: In April 2004 the People's Assembly issued Law 13 of 2004, which amended the Investment Guarantees and Incentives Law 8 of 1997 and the Capital Market Law 95 of 1992 to add a fourth chapter to the Investment Incentives law. The new chapter provides additional incentives for new and existing economic activities. It also theoretically transforms the General Authority for Free Zones and Investment (GAFI) into a "one-stop shop" for foreign investors, with authority over all steps necessary to set up a new business in Egypt. In July 2004, the Prime Minister issued new executive regulations for the amended Investment Guarantee and Incentives law.

Small and Micro Enterprises: In June 2004, the People's Assembly approved the Small and Micro Enterprise (SME) Development Law 141 of 2004 giving the Social Fund for Development (SFD) the mandate, in cooperation with ministries and public authorities, to develop and promote small enterprises (paid-up capital between LE 50 thousand and LE 1 million) and micro enterprises (paid-up capital less than LE 50 thousand). The SFD will coordinate with local and foreign organizations regarding funding for SMEs and with authorities in governorates for the establishment of funds to channel funding to SMEs from non-governmental organizations. The law provides incentives and facilities for SMEs including the allocation of 10% of land in industrial and touristic investment areas, 10% of government contracts, and technical assistance. Executive regulations of the law were issued by the Prime Minister in July 2004.

Sales Tax/Fees: In May 2004, the People's Assembly approved Law 89 of 2004 amending the Sales Tax law. It immediately imposed higher sales tax on a number of services, including hotel and tourist restaurant bills (10%), touristic transportation services (10%), fixed telephones and local telegraph services (5%), local and international cellular communication services (15%), and international communication services through fixed phones (10%). The People's Assembly also approved law number 90 of 2004 amending the State Financial Resources Development Duty law. It imposed a 3-8.5% fee on imported and locally manufactured passenger vehicles, a 2% fee on tour buses, an LE 50 departure fee on all passengers flying from Egyptian airports (to take effect in October 2004), and a 25% fee on airline tickets for travel originating in Egypt, with an LE 300 ceiling on first class tickets and LE 150 ceiling on all other classes of tickets. The new charges, which are expected to bring in a total of LE 1.5 billion in new government revenue annually, were immediately criticized by the media and relevant market participants, who argued that new fees would raise the cost of services in Egypt and dampen demand.

Capital Market/Real Estate Finance: In July 2004, The People's Assembly approved Law 143, which amended the Capital Market, Real Estate Finance and the Central Depository and Registration laws. It added a new chapter to the Capital Market law to regulate securitization, including the issuance of asset-backed securities by securitization companies. This change makes possible the full implementation of the 2001 real estate finance law, providing additional finance for the mortgage market and further developing the capital market.

Draft income tax (corporate and personal) and competition laws, which the government had hoped would be considered in the 2003/04 parliamentary session, have been deferred until the session beginning in November 2004. Other draft laws likely to come up for consideration during the next session cover capital markets, customs, accounting and auditing, and possibly sales tax revisions.

SECTORAL TRENDS AND PRINCIPAL GROWTH SECTORS

Services account for roughly 50% of Egypt's GDP, with tourism and Suez Canal revenues being particularly important.

Tourism: Tourism is Egypt's largest foreign exchange earner and a key engine of growth. Official figures credit tourism with about 5.5% of GDP, but a 2001 report by the Egyptian Center for Economic Studies implies tourism's real direct and indirect share of GDP is 11%. Despite regional unrest, the tourism sector continued to grow in FY 03/04, and is on track to set new annual records for both arrivals and revenue. Tourism arrivals and revenues, which declined sharply at the onset of the war in Iraq in March 2003, rebounded strongly shortly thereafter. For the 2003 calendar year, tourist arrivals surged to a record 6.04 million tourists, who spent about 53 million nights and \$4.6 billion, compared to 5.2 million tourists, 32.7 million nights, and \$3.8 billion in 2002. Figures for 2004 indicate 2.5 million tourists visited Egypt in the first four months of 2004, up 63% from 1.5 million during the same period in 2003. Overnight stays nearly tripled from 9 million tourist nights in the first four months of 2003 to 23.9 million in the same period in 2004. The Ministry of Tourism expects tourist arrivals to hit 7 million in 2004, a figure it previously had estimated would be reached only in 2007. Revenues for the first quarter of 2004 were up 59% to \$1.3 billion compared with \$813 million in the first quarter of 2003. The composition of tourists started changing in late 2003 and early 2004, as figures indicated that some of the higher-spending nationalities, including west Europeans and Japanese who stayed away after September 11, were coming to Egypt. Figures on American tourists also showed a 63% increase from 34,000 in the first four months of 2003 to 56,000 in the first four months of 2004.

In May 2004, the People's Assembly approved immediate increases in the sales tax on hotel and tourist restaurant bills, as well as new fees/taxes on tourist transportation services (10%), tour buses (2%), and airline tickets (25% for trips originating in Egypt, with an LE 300 ceiling per ticket). It also adopted effective October 2004 a departure tax of LE 50 on all passengers flying from Egyptian airports. The new charges, which are expected to bring in LE 380-400 million in new government revenue from the tourism sector annually, were immediately criticized by the media and tourism operators who argued that new fees would raise the cost of vacationing in Egypt and reduce the country's attractiveness compared to other destinations.

Despite the possible negative impact from the new taxes, the short- to mid-term outlook for the tourism sector remains bright. It is still susceptible to external shocks such as regional unrest/conflicts and terrorist attacks, but Egypt has not suffered any terrorist attacks since 1997. Hotel and tour prices have finally begun to return to pre-September

11 levels following deep discounting starting in late 2001. Higher prices should help increase tourism earnings, but may weaken Egypt's competitiveness with other destinations in the region, which have been competing more aggressively for the tourist dollar in recent years. Construction of tourism facilities should be able to meet expected demand, but further steps to improve the overall experience for tourists in Egypt, such as upgraded facilities and service at airports and antiquity sites, are equally important.

Suez Canal: Suez Canal revenues continued their robust performance in 2003/04, increasing to \$2.82 billion compared to \$2.31 billion in FY 02/03 (itself a record). This increase follows several years when revenues had been stagnant at around \$1.8 billion annually because of increased global reliance on other means of transportation (chiefly pipelines and air) and slow-downs in commerce related to the Southeast Asian economic crisis and then September 11. Although a substantial increase in military shipping associated with the Iraq war accounted for some of the increase in revenues, a dredging program completed in 2001 to deepen the canal for use by super-tankers also appears to have contributed to the higher revenues, as government statistics show a 10% increase in oil tonnage through the canal in FY 02/03. As Suez Canal transit rates are based on IMF special drawing rights (SDRs), the dollar's 10% depreciation against the SDR over the past two years has also been a contributing factor in the increasing revenues. How long the present high level of revenues can be maintained depends in part on events in Iraq and dollar-SDR exchange rate movements.

Banking: Although profitability in private-sector banks improved, the past year has not been one of major change in the sector. Rather, under the leadership of a new Central Bank Governor and board appointed in December 2003, it has been mostly a year of strategizing and planning for banking sector reform. Egypt's banking sector has suffered from low profitability in recent years, linked to recession-induced weak credit demand, a shortage of foreign exchange in the banking system, and most prominently a significant non-performing loan problem. The latter is a major issue principally, but not exclusively, at state-owned banks, and is associated both with the recession's impact on business and the limited expertise at state-owned banks in credit risk management procedures. During 2002 and 2003 a number of highly publicized bad debt cases resulted in the arrest and eventual conviction of several bankers and businessmen on fraud and corruption charges. The government has not publicly released a figure on the level of non-performing debt in the banking system since mid-2002, when it was estimated at around 16% of total outstanding loans. International financial institutions put the figure at slightly over 20% in 2003, while other observers put NPLs at anywhere from 20-30%. The biggest problems are concentrated in the large government-owned banks and some very small private banks. Government and banking sector sources say 35-50% of the non-performing loans are owed by public sector entities, with the remainder owed by the private sector.

Starting in early 2004, the government, the Central Bank, and state-owned banks have begun to move away from the policy pursued in 2002-2003 of aggressively prosecuting private sector bad debtors. Instead, banks have focused more on rescheduling loans and seizing real property collateral in lieu of loan payments. In June 2004, the People's

Assembly discussed a possible amendment to the banking law that permits debtors to resolve their cases even after a legal judgment has been reached.

Negotiations have also been taking place over the past year on a plan for dealing with non-performing debt owed by public sector enterprises to the state-owned banks. As initially conceived, approximately LE 30 billion in public sector enterprise debt would be converted into long-term government or government-guaranteed bonds, with the repayment flow to come from privatization revenues and earnings of public sector enterprises. Because of concerns about the impact of such contingent liabilities on the government's budget, the bonds reportedly will now be issued by the public sector holding companies for different industries, and there will be an implicit rather than explicit government guarantee of the bonds. At time of publication, the government was reviewing procedures for the bond issue, reportedly for 15 years maturity at an interest rate of 10%, with a financial advisor.

According to press reports and banking sources, over the past year the government also has considered various ideas for a holding company for state-owned banks, either to act as the banks' supervisor, to manage the banks' holdings in other companies, or as a special-purpose vehicle for resolution of non-performing loans. None of these various proposals has been adopted to date. Government and Central Bank officials have told donors and banking industry audiences that they are working on a comprehensive banking sector reform plan, which would include measures to address non-performing loans, consolidation of the banking sector, sale of the state-owned banks' shares in other commercial banks, and possibly privatization of one or more of the fully state-owned banks. Details of this plan have not yet been made public, but bilateral donors, international financial institutions, and the Egyptian commercial banking industry have increasingly called on the government to begin privatization of state-owned banks.

The new banking law passed in 2003 increased the minimum capital requirement for most banks from LE 100 million to LE 500 million. Only a handful of banks met that standard at the time, and most observers expect that the requirement will force a major consolidation of the system, which now includes over 50 commercial banks. Discussions have been proceeding both within the government and among banks about ways to meet the requirement, but no banks have changed their status so far. As allowed in the law, the Central Bank has extended the initial one-year deadline for meeting the new capital requirement until June 2005. We expect the eventual outcome will encompass the merger of some small, weak banks with either state-owned banks (particularly in cases where the state-owned bank already holds a significant ownership stake) or other local banks, possibly a few foreign purchases, and a few bank closures. In any event, we expect the banking sector will have far fewer participants in two or three years than it does now.

The manner in which that consolidation occurs will be important for Egypt's economy. The four largest state-owned banks directly control approximately 50% of all assets in the commercial banking industry. Through shares of state-owned banks and other state-owned entities in over 30 "joint venture" banks (i.e., mixed private and government

ownership), the government indirectly holds approximately another 25% of commercial banking assets. The government has publicly announced its intention to reduce its holdings in joint venture banks several times in recent years. In March 2004, state-owned Banque du Caire sold its 40% share in the joint venture Cairo Barclays Bank to majority shareholder Barclays Bank for LE 340 million (\$55 million), the first significant sale of a government-owned share in a joint venture bank in at least three years. The new law also reaffirms the government's authority to privatize state-owned banks, an issue that has been an increasing topic of discussion in Egypt. A consolidation that decreases rather than increases concentration of government ownership in the banking sector would be a healthy development.

Lending in real terms remained relatively flat from 2002 to 2003, reflecting banks' cautiousness about the economy, and the government and state-owned entities continued to account for the lion's share of new credit extended. Profitability remained generally low, but showed significant improvement at some private sector banks. If the economy continues to pick up, and foreign exchange availability becomes more widespread, profitability is likely to improve. Still, substantial additional progress in addressing the problems of non-performing loans and state ownership will be necessary to put the banking system on a firmer long-term footing.

Capital Market: The Cairo and Alexandria Stock Exchange (CASE) continued its bullish trend, which started in the second quarter of 2003 after several years of stagnation. Celebrating its 100th anniversary in 2004, the exchange saw better performance, mainly dominated by the services sector, and improved regulatory oversight. Continued growth and financial deepening of the stock market will hinge on regional stability and the pace of economic reform. The benchmark Hermes Financial Index (HFI) rose 84% from 8423 points in June 2003 to 15534 points in April 2004, before retracting slightly. It stood at 15871 points at the end of July 2004. As of June 2004, the market capitalization of CASE was approximately LE 173 billion, with shares in 540 of 983 listed companies being actively traded in 2003. On average, shares in 100 companies were traded on a daily basis in 2003, with the 20 most active stocks accounting for 45% of total trading value. Total trading volume in 2003 was 1.42 billion shares and trading value for 2003 was LE 27.8 billion. Trading volume doubled in the first half of 2004, registering 923 million shares compared to 478 million in the first half of 2003. Trading value rose 40% from LE 11.1 billion in the first half of 2003 to LE 15.6 billion in the first half of 2004. Foreigners' participation in trading volume was 21% in 2003 and 24% in the first half of 2004. Foreign portfolio investment registered a net outflow during the first three quarters of FY 03/04 of \$400 thousand compared to a higher net outflow of \$479 million in the same period of FY 02/03.

The government continues to introduce measures to bring Egypt's capital market closer to international standards. Companies listed on the CASE are required to apply international accounting and disclosure standards. Stocks are supposed to be delisted from the exchange if not traded for six months. In 2002 the Capital Market Authority board issued a decree giving companies listed on the CASE until August 30, 2003 to comply with listing regulations or be delisted from the CASE. As the CASE began

strictly enforcing the listing regulations, the number of listed companies fell from 1151 in December 2002 to 983 at the end of December 2003 and to 803 by June 2004. In 2003, the CASE increased from 12 to 17 the number of active shares that are allowed unrestricted price movement. Settlement of transactions now takes three days for dematerialized issues, four days for materialized issues, and two days for the active stocks that are not bound by the five-percent daily price movement ceiling. These settlement times are a significant improvement over the eleven days needed two years ago. To hedge investors against non-commercial risk, the Capital Market Authority and CASE issued in early 2004 new, detailed membership rules to increase CASE's supervisory authority and efficiency and improve transparency of trading.

To increase liquidity and trading in the market, in 2002 the Minister of Foreign Trade added an additional chapter to the executive regulations of the existing Capital Market Law 95 of 1992 to allow margin trading through brokerage firms and financially solvent licensed companies. Although margin trading has not been actually implemented to date, the Capital Market Authority and CASE have finished drafting detailed rules for margin trading and are upgrading their networks to start margin trading by the end of 2004. In 2004, the People's Assembly approved amendments to the Real Estate Mortgage, Central Depository and Settlement, and Capital Market laws to permit the issuance of medium- and long-term asset-backed securities that can be traded on the stock market, a key requirement for developing a secondary market for mortgage financing and other financial instruments.

In May 2002, the Minister of Finance issued decree number 480 of 2002 authorizing the establishment of a primary dealers system for government securities. The new system, which finally began operating on July 6, 2004, allows 13 financial institutions listed with the Ministry of Finance, including banks and bond dealers, to underwrite primary issues of government securities and activate trading in the secondary market through sale, purchase, and repurchase agreements of government securities based on a multiple-price auction system. Since the system's launching in July 2004, at least 10 auctions have taken place, at the rate of 1-3 auctions per week, and a total of LE 10 billion in government securities have been sold. Interest rates averaged 11-11.5% for the three maturities of 91, 182 and 364-day treasury bills.

Insurance: Egypt's insurance industry remains very small relative to other middle-income developing countries, with annual premiums accounting for only about 1.1% of GDP. The government reported total insurance sector assets at LE 17 billion at the end of FY 02/03. Premium income was LE 3.03 billion in FY 02/03, up 26.7% over FY 01/02. Some of that increase probably is attributable to the revaluation of foreign-exchange-denominated premiums following the pound's rapid depreciation in the first half of 2003. Non-life insurance accounted for about two thirds of the total LE 2.1 billion in FY 02/03. Four state-owned insurance and re-insurance companies continue to dominate the sector with over 70% of the market. The total number of companies in the market continues to grow slowly, from 17 at the end of FY 01/02 to 21 in 2004 (including at least six foreign insurance companies). If the government follows through on plans for further reform of the sector, including privatization of state-owned firms, there is likely to

be substantial room for growth and foreign investment. Official valuations of the four large state-owned insurance companies, an important step toward privatization, were completed in mid-2001, but there has been little progress toward privatization since that time. The percentage of insurance that each company must compulsorily reinsure with state-owned Egypt Reinsurance continues to be reduced, from 30% to 10% in 2003 for non-life insurance. For life insurance, it remains at 50%.

Other Financial Services: Progress in implementing the 2001 mortgage law has been slow. Although implementing regulations were published and a mortgage authority established in 2002, only two mortgage finance companies were established by early 2004. First Mortgage Company has as its chief shareholders the state-owned Housing and Development Bank and state-owned insurance companies, which together own 96% of its shares. First Mortgage Company decided to pursue a liberal mortgage finance strategy. It offers financing for up to 85% of a property's value, at an interest rate of 14%, payable over a maximum of 20 years, provided the loan installment does not exceed 40% of the client's monthly salary. More favorable terms apply for borrowers with an annual income lower than LE 9000 (around \$1450), including a government-subsidized interest rate of 6%, a longer mortgage period of 30 years, and a lower installment/monthly income ratio of 25%. The second company is Egyptian Housing Finance Company (EHFC), which has as shareholders the Egyptian American Bank (at 40%, the largest shareholder), the Housing Development Finance Corporation of India, the German assistance agency KFW, and the International Finance Corporation (IFC). This company planned a fairly conservative mortgage finance approach. It offers financing for up to 60% of purchase value for terms of 7-10 years. Changes in both companies' strategies are expected as the market develops. Amendments made in 2004 to the Capital Market and Mortgage laws in 2004 permit securitization, which opens the way for an eventual secondary market in mortgages. However, the full development of the mortgage market in Egypt is likely to take time and further development of both appropriate long-term securities and other real estate market infrastructure. When mortgages become generally available, there could be a significant positive impact on the economy, particularly in relieving housing shortages and stimulating the construction and building-materials industry.

Energy: Gas exploration, development, and production continue to be among the brighter spots in the economy, and gas exports should become a major foreign exchange earner for Egypt in 2005 as new liquefied natural gas (LNG) plants come on line. Oil production and exports, while declining, still play an important role in the economy. The oil and gas sector officially accounts for around 9% of GDP and for up to one third of annual merchandise exports. Gas and oil production in the Nile Delta, Mediterranean offshore areas, and the Western Desert have supplemented the original Gulf of Suez base of oil production. The oil and gas sector continues to account for the bulk of foreign investment in Egypt, with participation from such industry giants as British Petroleum, British Gas, ENI, and Shell, as well as some leading independent producers, such as U.S.-based Apache and Devon. A number of other U.S.-based exploration, drilling, and oilfield services companies also work in Egypt, and this sector continues to present some of the country's best trade and investment opportunities.

Crude oil production has been in decline for some years, from a high of more than 920,000 barrels per day (BPD) in 1995 to less than 620,000 BPD in 2003 to an average of slightly less than 600,000 BPD in the first four months of 2004. Proven and probable crude oil reserves declined from about 4 billion barrels in the early 1980s to less than 3 billion in 2001, but have stabilized since then because of recent discoveries. Meanwhile, domestic consumption grew steadily through the 1990's, steadily squeezing the available surplus of Egypt's largest single merchandise export. The slowdown in the economy has held domestic consumption steady in recent years, with only a slight increase in FY 03/04 to 475,000 BPD, from an average of 460,000 BPD in the previous three years. As the economy picks up steam, consumption levels probably will rise further, with a concomitant fall in oil exports.

On the other hand, gas and gas condensate production and reserves continue to rise. Over the last five years, production of natural gas has increased by approximately 75%, reaching about 3.3 billion cubic feet per day (BCFD) by the end of FY 03/04. During the same period, production of gas condensates has doubled to 100,000 barrels per day, partially offsetting the decline in daily crude oil production. Proven reserves have almost tripled over the past ten years to approximately 62 trillion cubic feet (TCF). The government estimates probable reserves at another 40-60 TCF, but other industry sources are less confident of this figure. In order to conserve scarce crude oil for export and utilize the growing gas surplus, Egypt has successfully converted 81% of its thermal power plants to gas, which now generates 63% of all electricity. Gas accounted for almost 50% of all hydrocarbon usage in Egypt in 2003.

The government of Egypt announced three concession rounds in late 2003 and early 2004, offering twenty-eight exploration concessions in the Western and Eastern Deserts, the Nile Delta, as well as the Mediterranean, the Red Sea, and the Gulf of Suez. Concessions approved by the People's Assembly as of April 2004 cover more than 14,000 square kilometers and have been awarded to different foreign companies including BP, Italian ENI's subsidiary, IEOC, and Shell.

There were several significant discoveries of oil and gas over the past year. Houston-based Apache Corporation (the largest American investor in Egypt at approximately \$2.2 billion) found a new natural gas field at its Khalda concession. With possible reserves of 1-3 TCF of gas and 20 to 60 million barrels of condensate, Apache calls this field the biggest find in the company's 49-year history and the biggest find ever in Egypt's Western Desert. In late June 2004, Apache announced a new gas discovery close to the Qasr field, with field tests indicating a daily rate of 29.4 million cubic feet of gas and 1,775 barrels of condensates. In late April 2004, BP announced a gas discovery in the Ras El Barr concession adjacent to Egypt's Nile Delta region, with the initial well testing at 22 million cubic feet per day. In November 2003, BP announced a gas discovery at its deep-marine West Mediterranean concession at depths of more than 750 meters. In February 2004, the Dutch Shell Group announced a new discovery in its consortium's northeast Mediterranean deepwater concession. In May 2004, Shell announced that its discovery well located in the Northeast Abu Gharadig (NEAG) concession in the Western

Desert had successfully tested at up to 1,600 barrels of 36-degree American Petroleum Institute (API) oil per day and 0.9 million cubic feet of gas per day.

With new natural gas discoveries currently outpacing domestic demand, and oil export volumes and revenues on a long-term downward path, the government is working hard to develop gas export capability and enter the world gas export market. Gas has the potential to become Egypt's largest merchandise export over the next decade. In the near term, exports will come chiefly from two LNG projects that will come on line through mid-2005. As this and other plants come on line, Egypt is expected to become the world's sixth largest LNG exporter by 2007.

In summer 2003, Egypt began gas exports to Jordan via a new overland pipeline from El Arish to Taba, on Egypt's Sinai Peninsula, and then underwater to the Jordanian city of Aqaba. During the first year, gas exports to Jordan generated gross revenue of approximately \$70 million, and are expected to climb to \$200 million annually by 2005 as the pipeline is extended throughout Jordan.

Regional tensions had derailed earlier plans to make Israel Egypt's first customer of natural gas, but the plan regained momentum in early 2004. Although Egyptian officials refuse to confirm any discussions, Israeli and international media report that the Israeli Electrical Company (IEC) is close to finalizing an agreement with the Israeli-Egyptian private joint-venture company Eastern Mediterranean Gas (EMG) to purchase up to 1.7 billion cubic meters annually for 14 years, with an estimated value of approximately \$2.5 billion. Exports to Turkey by pipeline are also a longer-term prospect, though Egypt would have stiff competition for the Turkish market. Gross gas export revenues are projected to increase from \$70 million in sales to Jordan (via the pipeline) in FY 03/04 to around \$1.3 billion annually in 2007-08 from both pipeline and LNG exports.

As another way of utilizing its gas surplus for both exports and domestic consumption, the government created the Egyptian Petrochemicals Holding Company (ECHEM) in 2002 to develop and implement a petrochemical industry master plan. The twenty-year plan envisions the establishment of up to 14 plants on Egypt's coastline to produce intermediate petrochemicals, such as propylene, linear alkyl benzene (LAB), and end-use consumer items. ECHEM estimates it needs \$1 billion in foreign investment to implement the plan. In June 2004, the Egyptian Linear Alkyl Benzene (E-LAB) company awarded a contract to U.S.-based Fluor Corporation to manage development of a new facility in Alexandria for the production of linear alkyl benzene, which is principally used in detergents. The facility is expected to be operational in early 2007.

Despite its potential, questions persist about the future of the gas industry. There is considerable variance in estimates of probable gas reserves and some industry observers question whether Egypt's gas production will grow fast enough to keep up with all of the planned export sales, development of the petrochemicals industry, and growing domestic demand for natural gas.

Domestic pricing policies also play a problematic role in oil and gas supply and demand. EGPC provides gas at cut-rate prices to power plants, which in turn provide low cost power to smaller consumers. The government heavily subsidizes butane cooking gas. Other petroleum products are sold at prices well below the international market, and perhaps below cost as well. For example, the price of petrol (gasoline) at the pump is well below world market prices (at 1 LE/liter, about \$0.16/liter or \$0.60/U.S. gallon at current exchange rates). Diesel, a significant proportion of which is imported, is only LE 0.40/liter, almost certainly below the cost of production.

These subsidies manifest themselves in smaller transfers from EGPC to the government budget, and thus have an indirect but enormous impact on government revenue. The cost of these explicit and implicit subsidies grows as the pound depreciates and as Egypt's domestic consumption of oil and gas increases. The Minister of Petroleum has publicly estimated the cost of these direct and indirect subsidies in FY 03/04 at LE 24 billion (almost \$4 billion, equivalent to nearly 1/6 of total government budget expenditures), while the former Minister of Finance put the cost at LE 16.7 billion. Other estimates have put the cost at over LE 30 billion annually. Addressing this growing imbalance will be one of the government's key economic challenges over the next several years. The government took a cautious step in that direction in March 2004 by introducing a new, 92-octane variety of petrol priced at LE 1.40/liter (40% more than the existing mid-market 90 octane), but much more remains to be done.

Egypt's electricity consumption is expected to increase at a rate of 6-7% annually over the next decade or more. To meet that demand, the government's long-term plan calls for the construction of up to 25 gas-fired and combined-cycle power plants between 2003 and 2012. These plants would add an additional 12,875 megawatts (MW) of generating capacity, almost doubling Egypt's current capacity. Financing and tendering for the first two 1500 MW plants in Cairo North and Nubariya is virtually complete. Two 750 MW plants at Talkha and Kureimat are next in the planning queue. Financing for the ongoing and future projects is coming from international financial institutions (chiefly to date from the European Investment Bank and African Development Bank) and bilateral credit guarantee agencies (the U.S. Export-Import Bank is financing the Nubariya turbines being produced by General Electric).

The government's emphasis on increasing power production by constructing state-owned generation plants followed an earlier attempt to increase private-sector participation. By 2003, Egypt had added more than 2,000 MW in generating capacity through three privately owned Build-Own-Operate-Transfer (BOOT) projects. The government's concerns about having to pay for that power in hard currency at a time the pound was losing value was a major factor in its decision to revert to more traditional government-run projects.

Manufacturing: Over the past year, the manufacturing industry also enjoyed a modest, if uneven, recovery, driven by export demand, domestic demographics, and possibly the natural upswing of the business cycle. According to government statistics, Egypt's manufacturing sector accounts for approximately 20% of GDP and 14% of employment.

Food processing and textile products account for the bulk of Egypt's manufacturing value, while other main sub-sectors include metallurgy, cement, fertilizers, and other consumer goods.

The construction and building-materials industries, which led Egypt into recession in late 1999, performed much better over the past year, driven chiefly by a construction boom in the Persian Gulf countries. On the positive side, that boom attracted a large share of Egypt's cement production (five million tons of cement in 2003), making Egypt one of the world's largest cement exporters. Steel exports to the Gulf also increased. Substantially higher prices pushed up the profitability of Egyptian cement and steel producers, even factoring in the increased cost of raw materials associated with the pound's depreciation. On the negative side, those higher prices helped keep domestic demand for building materials flat and led to accusations that steel producers, particularly the Ezz steel associates that control the majority of the market, were using their monopoly position to raise prices. In fact, Egyptian steel rebar prices matched the prevailing world prices.

Government statistics put cement production at 26.2 million metric tons (mmt) for the first ten months of FY 03/04 (through May 2004), a trend that would put full FY production ahead of the FY 02/03 figure of 28.6 mmt. Relatively stable domestic consumption of 22.4 mmt for the same period in FY 03/04 compared with 26.5 mmt in full FY 02/03 was balanced by fast-growing exports -- 5.5 mmt in the first ten months of FY 03/04 compared with only 2.3 mmt in full FY 02/03. On a calendar-year basis, production grew from 27.9 mmt in 2002 to 28.9 mmt in 2003, while domestic consumption dropped from 27 mmt in 2002 to 25.8 mmt in 2003, and exports increased from 1.5 mmt in 2002 to 5 mmt in 2003, and a further 2.2 mmt in the first five months of calendar year 2004. Industry sources say steel rebar production was 3.12 million tons in calendar year 2003 compared to 3.06 million tons in calendar year 2002. Steel exports to the U.S. decreased slightly from 2002 to 2003, but appear to have increased to other markets. Exports will continue to be important for Egypt's steel and cement producers over the coming years to fully exploit the large increases in capacity made in recent years. Fortunately for Egypt's construction industry, the Gulf's construction boom shows no sign of abating. If the recovery continues to strengthen, domestic demand should start to grow again as well, even with the higher prices.

Automotive sales (production and imports) grew from 58,500 vehicles in 2002 to 63,225 in 2003, the first increase since 1999, when sales topped 76,000 vehicles. However, sales slumped in the second half of 2003 and first half of 2004, and the industry now expects the total sales volume to be only 54,500 vehicles in 2004, the lowest since the early 1990's. A new fee, ranging from 3% to 8.5% on all vehicle sales, may further dampen demand somewhat. If the pound stabilizes and the domestic economy recovers more, this very import-dependent industry may rebound. The future of Egypt's automotive industry remains problematic, however. Nine different companies assemble vehicles behind high tariff barriers (over 100% for most passenger cars). The fragmented production base offers few economies of scale and Egypt has thus far developed only limited feeder industries for vehicle parts. Major changes will be needed if the industry is to be

competitive in a freer trade environment. Egyptian automobile manufacturers will begin facing lower tariffs on automobiles imported from EU member nations in 2010. From that year until 2019, tariffs will be reduced 10% annually in accordance with the Egypt-European Union Association Agreement.

Sales of other durable goods were also affected by the pound's devaluation. Products using primarily local inputs fared better in the domestic market than those relying on imported inputs. Overall, demand from Egypt's growing population should continue to ensure positive growth in manufacturing, at least for the most competitive companies.

Little hard data is available on the food processing industry. Some sub-sectors, such as poultry products and wheat-based products, suffered this past year because of their dependence on imports made more expensive by the pound's devaluation. Products based on local inputs (such as frozen vegetables) did better and are significantly more competitive externally with a cheaper pound. Long-term prospects for this industry remain strong, given Egypt's large domestic consumer base, raw material resources, and location close to potential export markets in Europe and the Gulf.

Egypt's textile and clothing industry continues to be a study in contrasts. According to government figures, with more than 1500 manufacturers and over 500,000 workers, the spinning and weaving industry accounted for 13% of Egypt's GDP in 2001/2002 (LE 48.9 billion out of LE 379 billion). However, those figures encompass both new, business-savvy, well-equipped, and export-oriented firms (mostly private ones in the clothing industry) and older, unprofitable, largely state-owned firms employing outdated equipment and out-sized workforces, particularly in the spinning and weaving sub-sectors. The poor quality of yarn and other textile inputs has led many clothing manufactures to import their cloth.

To protect the clothing industry, the government formerly had bans on clothing and textile imports, which it was required to replace with tariffs under its WTO commitments. In 2002 it replaced the clothing import ban with "specific" rather than "ad valorem" tariffs (i.e., tariffs that were based on a monetary value assigned for each piece of clothing rather than as a percentage of the item's value). The new tariffs, however, were well above Egypt's WTO commitments even when expressed in ad valorem terms. After several complaints from its trading partners, including a request for consultations filed by the U.S. with the WTO, Egypt replaced the specific clothing tariffs with ad valorem tariffs within its WTO commitments in early 2004. Shortly thereafter, in March, new regulations were issued specifying that companies that export clothing and fabric to Egypt must demonstrate that they meet certain international labor and environmental standards, in some cases through on-site inspections of factories. How these regulations will be implemented is not yet clear. Concurrently with the lowering of tariffs on clothing, the government lowered tariffs on equipment, raw materials, and other inputs for the textile and clothing industries to help make them more competitive. Private clothing manufacturers, which produce largely for export, report that the pound's depreciation has made them much more competitive internationally. While they expect exports to increase as a result, they still face some challenges including quality issues,

lack of designers and design centers, and under-development of upstream and feeding industries. Verifiable data on production trends in the textile/clothing industry are hard to come by, but the industry accounts for at least 20% of all non-oil merchandise exports. Government figures, which usually underestimate actual trade activity, indicate textiles/ready made garment exports were \$880 million in 2003.

Egypt's price-controlled pharmaceuticals industry experienced another disastrous year. The government's reluctance to permit price increases that would reflect higher foreign exchange costs in the heavily import-dependent industry led to steep declines in profitability. Several foreign companies posted significant losses including, for example, Pfizer Egypt which reported losses of LE 65 million on LE 278 million in sales in 2003. Some of these companies are exploring different scenarios for cutting back on their operations in Egypt if the government does not address the price control issue. Although some local companies which produce off-patent products are not suffering as much, price controls place a ceiling on expanding, or even sustaining, economically feasible operations. The future of the pharmaceutical industry in Egypt will remain bleak until the government changes its policy of making the pharmaceutical industry bear the cost of low drug prices for all consumers to a policy of cost-based pricing combined with targeted subsidies for the truly needy to ensure their access to medication. Another issue the government will have to address is its ongoing approvals to register and market Egyptian copycat pharmaceutical products based on confidential U.S. company test data. These approvals highlight deficiencies in Egypt's intellectual property rights regime, and were part of the justification for the U.S. government's elevation of Egypt to the Special 301 Priority Watch List this year.

We expect that a more stable pound and increased foreign exchange availability should lead to stronger manufacturing performance over the coming year, particularly for export-oriented industries and ones which rely substantially on local material and labor inputs.

Agriculture: Agriculture remains one of Egypt's most important sectors and continues to achieve steady growth rates of 3-4% per year. Growing middle-income countries generally exhibit a decline in agriculture's share of GDP and employment, and Egypt is no exception. The sector's contribution to GDP has fallen gradually from 20% in FY 86/87 to 16% in FY 02/03, and the number of Egyptians employed in the sector has fallen, from 33.8% of the total labor force in FY 90/91 to 28.4% in FY 01/02. The challenge for Egypt is to maintain and expand agricultural production for domestic and export markets while concurrently adding value and employment through the development of more agriculture-based processing activities. Since the mid-1980s, productivity gains have been achieved through long-term government commitments to policy reform and liberalization and the use of assistance from foreign donors (particularly USAID). These productivity gains have sharply increased grain and vegetable production, closing the gap between domestic food supply and demand.

Egyptian wheat production was 6.5 million metric tons (mmt) and rice production was 3.9 mmt in 2003, slightly higher than the previous two years. Nevertheless, Egypt remains a large food importer and a traditional market for U.S. grain exports. Although

U.S. wheat exports took only a 30-40% share of the import market in Egypt in marketing year 2002-2003, the U.S. share rebounded to 53% of Egypt's 6.8 mmt wheat import market in 2003-2004.

Cotton production in Egypt has continued to decrease over the last few years from 315,000 metric tons (mt) in 2001-2002 to 190,000 mt in 2003-2004, but this trend is not expected to last. Local cotton prices have recently more than doubled, and farmers will likely opt to grow cotton rather other crops that generate less revenue. While still a small part of total exports, horticultural exports, chiefly to Europe, have become increasingly important in recent years. Egypt hopes that its Association Agreement with the European Union and development of the Toshka agricultural scheme (more on both below) will lead to large increases in fruit and vegetable exports. Food processing for both the domestic and export markets is an industry with substantial growth potential.

The South Valley Development or "Toshka" project, located in Egypt's far south, aims to irrigate some 540,000 acres of arable arid soil with water from Lake Nasser. Since 1997, the government has been building a massive pumping station and irrigation canals to transport the water for the project. Construction on the project has slowed in the past 2-3 years, but President Mubarak inaugurated the pumping station in October 2002 and all of its 21 pumping units had been installed and tested by the end of 2002. However, few are actually in operation as the water demand for cultivation is still not high. The main canal has been complete since at least 2000. Construction is proceeding on four branch canals of 28 kilometers each, with the first two completed in January 2003, the third about 50% complete, and work on the fourth just begun. Saudi Prince Walid bin Talal's Kingdom Agricultural Development Corporation (KADCO) owns 120,000 acres, to be managed by the U.S. firm Cadiz/Sun World (which has a 10% investment stake in the KADCO project), and is currently doing field tests on a portion of that land. This private sector project's aim is to grow fresh fruits and vegetable for export to Europe in the winter months. No other major investors are yet involved, although several government-sponsored entities are doing field tests in the Toshka region.

Transportation and Infrastructure: Egypt's aviation sector has been plagued over the past year by poor profitability and one major airline accident, even as air and maritime port projects that should help improve the overall efficiency of the sector moved forward. Egypt Air, the state-owned national carrier, is by far the dominant Egyptian player and is the sole operator on most domestic routes. A few small airlines run charter businesses, mostly using leased aircraft, which bring tourists from Europe to Egypt. An even smaller number operate scheduled or charter domestic flights on a very small number of routes, chiefly to tourist destinations. Since 2003, the government has allowed some Arab airlines to operate scheduled flights directly into Egypt's other international airports (such as Sharm el Sheikh and Hurghada), rather than just to Cairo.

Egypt Air was converted into a holding company in 2002. The holding company reported losses of LE 321 million in FY 02/03 and experienced more losses over the past year. The national carrier announced in early 2004 that it was suspending 17 international and domestic routes in an effort to cut costs. This action follows an earlier

decision in 2003 to cut several international routes. Egypt Air also raised prices on domestic routes in early 2004. In May 2004, the People's Assembly passed new legislation instituting a departure tax on all airline flights and a surcharge on all air tickets sold in Egypt.

In 2003, Egypt Air signed a \$750 million long-term lease-purchase agreement for seven new Airbus 330s to replace older Airbus 300/600s. It purchased five additional Airbus 320s for \$185 million. Delivery of the Airbus 320s started in October 2003, a few months behind schedule, while delivery of the Airbus 330s started in July 2004.

The past year also was marked by one major accident and some safety violations. An aircraft operated by Flash Airlines, a private Egyptian charter company, crashed into the sea shortly after take-off from Sharm El Sheikh bound for Cairo and Paris on January 3, 2004, killing all 148 people on board, mostly French tourists. A second Egyptian charter company had its permission to operate in France temporarily suspended for violating landing procedures.

Airport Modernization: In March 2004, the World Bank approved a \$335 million loan to the government for airport modernization projects. Most of the loan will help finance the estimated \$350-400 million construction of a long-planned third terminal at Cairo International Airport. Dar El Handasa, a Lebanese company, was awarded the project management contract for Terminal 3 in June 2003. The Dutch company Netherlands Airports Consultants (NACO), in collaboration with Egyptian ECG, was awarded the design contract. The loan also will help finance the \$44 million construction of a new terminal in Sharm El Sheikh, Egypt's premier beach resort, which should double that airport's passenger-handling capacity. Bids on the contract to construct the new terminal were due July 18, 2004. An upgrade of Luxor airport was completed in late 2003. Based on its discussion with the World Bank of further airport management improvements, the Ministry of Civil Aviation also has decided to contract management of several Egyptian airports to airport management companies with international experience. Bids were invited to manage six domestic airports -- Cairo, Sharm El Sheikh, Hurghada, Luxor, Aswan, and Abu Simbel -- with the first three to be managed as individual contracts and the last three as a package. Bids were due in July 2004.

Egypt's first Build, Own, Operate, and Transfer (BOOT) airport, Marsa Alam on the southern Red Sea coast, started operations in October 2001. It is mainly a destination for tourism charter flights from Europe. Egypt Air's limited service to the airport, which began in late 2002, was one of the 17 lines cut in early 2004 as a budget-saving measure. A second BOOT airport is nearing completion at El Alamein, which is about 40 kilometers from the primary resort area of Egypt's Mediterranean coast. El Alamein airport is expected to be in operation before the end of 2004. A proposed BOOT project in Ain Sokhna is back on the government's agenda. Preliminary studies are being conducted by the NORGIC Group, an airport consultant group from Norway.

Sea Port Modernization: Slow clearance of incoming and outgoing shipments has long been a problem at maritime ports in Egypt. Port clearance times in Alexandria, which

handles approximately 50% of Egypt's merchandise imports, have not improved significantly in recent years. Outdated handling and IT equipment, slow customs clearance, cumbersome inspection requirements, and other bureaucratic delays all have contributed to customs clearance times that often average three to four weeks. The government hopes that adoption of the lessons learned at Damietta and Ain Sokhna (see below) will help speed processing at other ports. Swift passage and adoption of a new customs law and procedures, as well as rationalization of import inspection procedures to conform to international best practices (such as random or risk-based rather than 100% inspection of shipments), also are necessary aspects of a long-term plan to improve port clearance times.

The government has undertaken an LE 140 million project to improve electronic data management, customs procedures, road and rail connections, and other infrastructure at the port of Damietta, on the Mediterranean coast between Alexandria and the Suez Canal, which currently handles about 10% of all import traffic. Damietta also benefits from significantly more private-sector involvement and investment in cargo handling than at other ports. Processing times already have been cut dramatically and officials say that when all improvements are in place (scheduled for October 2004), the clearance time at Damietta will be four days.

Egypt's first BOOT port project, the Red Sea container port of Ain Sokhna, 40 kilometers south of the Suez Canal terminus, opened in October 2002 to great fanfare. It currently has four operating cargo terminals and port clearance times of one-two weeks. Port officials project that by 2005 it will handle 20 million tons in cargo transfers with a clearance time of two days. The government has announced that the first Special Economic Zone to be set up under the 2002 law will be adjacent to the port located in the North Gulf of Suez. At the other end of the Suez Canal, the East Port Said Port project is currently in its final phases. The opening of a new port for transit business is expected before the end of 2004, and container handling business is expected to be in full operation by mid 2005.

Information Technology and Telecommunications: Continued increases in mobile phone and computer penetration, combined with some important legal and regulatory changes, kept this sector at the forefront of market-oriented reforms in Egypt over the past year. Industry estimates put the growth of the sector at 15-20% annually and the number of working computers in the domestic market between 1.6 to 2 million. Nevertheless, less than 3% of the population is estimated to have computers and more than 40% of that number are concentrated in Cairo and Alexandria. Constraints on the sector's growth include insufficiently trained human resources, the absence of internet training in school curriculums, low Arabic content on the net, and lack of public awareness. Government-sponsored internet centers and subsidized internet cafes are beginning to address these constraints in towns throughout Egypt.

The government reports that internet penetration increased from 1.6 million dial-up users in 2002 to 2.5 million by the first quarter of 2004, based on an estimated two to three users for each of the 950,000 registered internet lines. One of the reasons for this

dramatic increase in home users is the very low dial-up fee, which is currently set at two piastres (0.33 cents) per minute. The government's new "Broadband Initiative," introduced in May 2004, included halving the price of ADSL service to LE 150 (\$24) per month for 256K transmission and introducing Wi-Fi technology to the market.

The growth of cellular phone services in Egypt continues to be the most measurable indicator of IT potential in Egypt. Egypt's two providers are Vodafone Egypt, majority owned by Vodafone, with a 48% market share, and MobiNil, owned by majority partner Orange Telecom and minority partner Egyptian Orascom Telecommunications, with a 52% market share. Total mobile phone subscriptions increased from 4.3 million at the end of 2002 to 6.5 million as of July 2004, compared with 8.9 million fixed phone lines in mid-2004. Both figures have grown sharply in recent years; as recently as the end of 1999, there were fewer than 700,000 mobile phone subscribers and 4.9 million fixed lines subscribers. Data traffic is also growing, which has created a high demand for both fixed-line and mobile communications.

Two major events dominated Egypt's mobile phone industry over the past year. The first was the decision by Telecom Egypt (TE) -- Egypt's state-owned fixed line monopoly provider -- to cancel plans to launch Egypt's third mobile phone company, despite having paid for the license in 2002. TE tried for more than a year to find a strategic partner, but negotiations with foreign mobile operators were unsuccessful. Following its inability to secure a strategic partner and after some high-profile political discussions about the need for a state-owned provider to protect citizen's interests, TE eventually struck a deal with the Vodafone Group, which owns 67% of Vodafone Egypt, to purchase a 26% ownership stake in the latter. Those shares would be combined with some of Vodafone's shares to form a new consortium called Al Watania, which would control 51% of Vodafone Egypt.

As a corollary to this agreement, TE returned its license to operate a GSM mobile phone network in the 1800 MHz frequency to the National Telecommunications Regulatory Authority (NTRA) in late 2003, and was refunded the nearly LE 2 billion it paid for the license. The NTRA in turn sold the rights to the 1800 MHz spectrum to Vodafone and Mobinil for LE 1.24 billion each. As of publication, TE had only bought a portion of the shares in Vodafone Egypt envisioned under the agreement.

The government's earlier plans for a partial privatization of TE, either via the local and international stock markets or through a strategic investor, remained on hold over the past year. Some industry observers speculate that the appointment of the architect of the privatization plan, Ahmed Nazif, to Prime Minister may breathe new life into the proposal.

The other major development in the mobile phone industry was the successful bid of a consortium led by Orascom Telecommunications Holdings (OT), Egypt's largest private telecommunications company and a major mobile phone service provider in Africa and the Middle East, for the first license to provide mobile telephony services in Iraq's central region, including Baghdad. Orascom, which has a 63% share in the consortium, told the media that the consortium would invest \$100 million during the first phase of the project,

with the goal of 100,000 mobile phone lines operational within two months and an additional one million lines within two years (the end phase of the contract). As of mid-July 2004, Orascom said it had 230,000 subscribers and 103 base stations spread throughout Iraq's central region. In addition to Iraq, Orascom-controlled companies have a total of 4-5 million mobile phone subscribers in Algeria, Tunisia, and Pakistan.

ECONOMIC COOPERATION

Regional Initiatives: In June 2001, Egypt signed an Association Agreement with the European Union. The People's Assembly ratified the agreement in March 2003, and after ratification by all of the fifteen EU member states, the agreement came into effect in June 1, 2004 (although the trade provisions of the agreement took effect on January 1, 2004). The agreement grants Egyptian exporters immediate duty-free and quota-free access to the European market for industrial goods, and expanded access for agricultural products that do not compete directly with European products. As for European access to the Egyptian market, the agreement requires Egypt to phase out customs duties on imports from the EU according to four schedules. For example, tariffs on raw materials and industrial equipment will drop to zero three years after the agreement enters into force; on semi-finished goods after 9 years; on consumer goods and finished products after 12 years; and on automobiles after 15 years. The agreement includes 615 million euros in project assistance grants and 1.1 billion euros in loans from the European Investment Bank, designed to help modernize Egyptian industry.

Egypt has trade agreements with nearly every Arab country. In January 1998, Egypt began implementing agreements reached with 11 Arab League members in connection with the Arab Common Market treaty of the 1960s, which call for phasing out existing tariffs over a 10-year period. Extensive "negative" lists that exclude specific items from tariff reductions impede the effectiveness of almost all of these agreements, however. In February 2004, Egypt signed a free trade agreement (the Aghadir Agreement), with Tunisia, Morocco, and Jordan. The agreement commits the parties to remove all tariffs on trade between them and to intensify economic cooperation by harmonizing their standards and customs procedures. If all parties to the agreement ratify and exchange instruments of ratification in 2004, tariffs will be reduced 80% immediately and eliminated completely in 2005. If instruments are exchanged in 2005, tariffs will be immediately eliminated. This free trade area is envisioned as part of the EU's Euro-Med process to promote freer trade between the EU and its Mediterranean neighbors. Egypt has been a member of the Common Market for Eastern and Southern Africa (COMESA) since 1998. Egypt enjoys tariff-free trade with the 11 members of COMESA, but faces varying tariff levels on trade with the other 9 members.

U.S.-Egypt Trade and Investment Framework Agreement: Egypt and the United States signed a Trade and Investment Framework Agreement (TIFA) in 1999. The TIFA provides a mechanism for identifying and undertaking measures to promote freer trade between Egypt and the United States. The agreement also established a Council on Trade and Investment (TIFA Council) composed of representatives of both governments, and chaired by high-level officials from USTR and the Egyptian Ministry of Foreign Trade

and Industry. The Council first met in November 1999. Subsequent meetings resulted in the establishment of four working groups: government procurement; customs reform and administration; sanitary/phytosanitary issues; and agricultural trade. The working groups held their first sessions in December 2002 and have met regularly since then. The latest TIFA Council meeting was scheduled for July 2004, but was postponed because of the Egyptian cabinet changes.

U.S. Economic Assistance: The U.S. government has provided Egypt more than \$25 billion in economic assistance since 1975. USAID has been instrumental in putting into place the foundations for economic growth. In addition to infrastructure development (water, wastewater, power, and telecommunications), USAID has helped promote a favorable economic policy environment for private-sector development. Over the years, USAID programs have concentrated on job creation, economic growth and productivity, infrastructure development, education, democracy and governance, health and nutrition, the environment, and natural resource management. In recent years, USAID's strategy has focused more on expanding the role of Egypt's private sector to help move Egypt from an assistance-based relationship to a relationship based on trade and investment. New areas of concentration under this approach include development of the information-technology sector, strengthening Egypt's capacity for human resource development, trade policy capacity building, financial sector reform, development of micro and small enterprises, and enhancement of Egypt's business and export competitiveness. Economic assistance levels averaged over \$800 million annually from the time of the Camp David accords (1978) until mid-1998. Food aid averaged over \$218 million/year starting in 1975, but ended in 1992 in light of Egypt's gains in agricultural self sufficiency. As part of an overall revision in U.S. assistance policy, aid levels have, by mutual agreement, with the government, been on a downward glide path since 1999. The USAID budget for Egypt for U.S. FY 04 is \$575 million, and the anticipated budget for FY 05 is \$535 million. Current planning is that economic assistance levels for Egypt will continue to be reduced by \$40 million per year to a level of \$407.5 million by 2009.

U.S. Support for Trade and Investment: The Overseas Private Investment Corporation (OPIC), the U.S. Export-Import Bank (Ex-Im Bank), and the Trade and Development Agency (TDA) are committed to supporting the growth of U.S.-Egyptian bilateral trade and investment. These agencies provide loans, insurance products, and other services, such as support for feasibility studies on major investments involving U.S. inputs. Several business missions from these agencies visit Egypt annually to explore possibilities for increasing their activities in Egypt. This report has noted several infrastructure and industrial projects in which these agencies are assisting both Egypt and U.S. business. Information about Ex-Im Bank, OPIC, and TDA programs is available through their head offices in Washington or through the Embassy (see below). The U.S. Department of Commerce's Foreign Commercial Service (FCS) and the U.S. Department of Agriculture's Foreign Agricultural Service (FAS) provide assistance to U.S. exporters through their offices in Washington and in the Embassy in Cairo. The Embassy's Economic and Political Section also can provide guidance to current and potential American investors and information on current economic conditions in Egypt. See the over leaf of the front page for more information about these services.

POLITICAL ISSUES AFFECTING THE BUSINESS CLIMATE

Nature of Political Relationship with the United States: The United States and Egypt enjoy a strong and friendly relationship based on shared mutual interest in Middle East peace, stability and regional security, combating international terrorism, strengthening trade relations, and revitalizing the Egyptian economy. Multinational exercises, U.S. assistance to Egypt's military modernization program (valued at \$1.3 billion annually), and Egypt's role as a contributor to various UN peacekeeping operations continually reinforce the U.S.-Egyptian military relationship. Egypt is an indispensable partner in the quest for regional peace, and it works closely with the U.S. to that end.

Political System: The Egyptian Constitution provides for a strong President nominated by the People's Assembly and confirmed by a national referendum for renewable six-year terms. The President is empowered to appoint one or more Vice Presidents, the Prime Minister, the Cabinet, and Egypt's 26 provincial governors. President Hosni Mubarak was reelected in September 1999 to a fourth 6-year term, expiring in 2005. The bicameral legislature includes the law-making People's Assembly and a consultative upper house, the Shura Council. People's Assembly elections were held in late 2000 for a five-year term and elections for one-third of the Shura Council seats were held in May 2004. Elections to the People's Assembly are scheduled for 2005.

The National Democratic Party (NDP) has been the ruling party since its foundation in 1978. It effectively controls local and national government. Within its ranks are both members who favor greater economic and political reform as well as members who oppose reforms. There are more than a dozen recognized opposition parties, all of them small. A few of these parties have members in the People's Assembly and the Shura Council.

In July 2004, President Mubarak appointed 52 year-old Ahmed Nazif as Prime Minister. Nazif, who had been serving as Minister of Communications and Information technology (MCIT), replaced the 72 year-old Atef Ebeid. Deputy Prime Minister and Minister of Agriculture Youssef Wali and Minister of Information Safwat El Sherif, both in their posts since 1982, were also replaced. Nazif appointed a new cabinet, in which several individuals known to support market-oriented economic reforms hold prominent places. Minister of Foreign Trade Youssef Boutros Ghali moved to the Ministry of Finance. Former Unilever Egypt Chairman Rashid Mohamed Rashid was named head of a combined Ministry of Foreign Trade and Industry. Mahmoud Mohieldin, the 39 year-old chairman of the NDP Economic Committee, was named head of a new Ministry of Investment Promotion, with oversight authority for the investment authority GAFI, insurance, capital markets, real estate finance, and the privatization program. Nazif's former deputy at MCIT, 42 year-old Tarek Kamel, became the new Minister of Communications and Information Technology.

Terrorism/Political Violence: There have been no terrorist incidents in Egypt since November 1997, largely because of the government's concerted and successful counter-terrorist campaign. Previously, extremist groups had staged attacks on government

officials, security forces, prominent individuals, and tourists. While potential terrorist attacks do not pose a credible threat to the government, they could threaten the business climate and Egypt's vital tourist industry.

Violence in Israel and the Palestinian territories has not spilled over into Egypt, although pro-Palestinian demonstrations occur from time to time. There were isolated incidents of vandalism of U.S.-linked businesses during demonstrations in April 2002. There were large anti-U.S. demonstrations in Cairo at the start of the March 2003 war in Iraq, but property damage was incidental and foreign businesses and property were not targeted. There have been no large public demonstrations since that time. Periodic calls for a boycott of American goods to express opposition to American policy in the region, which had some impact on sales in 2001-02, had little or no impact over the past year. The past impact of such boycotts has fallen chiefly on Egyptian-owned franchises of U.S. restaurant chains and locally produced U.S.-branded consumer goods. The government opposes such boycotts, and has publicly countered them by stressing the negative impact on Egyptian owners and workers. The overall security atmosphere for U.S. firms operating in Egypt remains excellent.

FURTHER RESOURCES

Additional information on economic and business issues in Egypt can be obtained from a number of sources supported by the U.S. and Egyptian governments, as well as business and research institutions. Below are several websites that may be of further interest. The Embassy takes no responsibility for non-U.S. government sites.

U.S. GOVERNMENT SITES

www.usembassy.egnet.net

Homepage of the U.S. Mission to Egypt

www.exim.gov

Export-Import Bank of the United States

www.opic.gov

Overseas Private Investment Corporation

www.usaid.gov

U.S. Agency for International Development

www.tda.gov

Trade and Development Agency

www.ita.doc.gov

Includes all homepages of International Trade Administration (ITA) entities

www.ita.doc.gov/uscs/egypt

Home page of the Commercial Service in Egypt

www.ita.doc.gov/tic

Home page of the Trade Information Center of the U.S. Department of Commerce

www.bea.doc.gov

Bureau of Economic Analysis, U.S. Department of Commerce

www.scitechresources.gov

Catalog of US government science and technology-related websites

EGYPTIAN GOVERNMENT SITES:

www.alhokoma.gov.eg

Egypt's government-on-line homepage, with links to many ministries

www.presidency.gov.eg

Egyptian Presidency

www.sis.gov.eg

State Information Service

www.parliament.gov.eg

Egyptian Parliament

www.idsc.gov.eg

Home page of the Cabinet Information and Decision Support Center

www.cbe.gov.eg

Central Bank of Egypt

www.moft.gov.eg

Ministry of Foreign Trade and Industry

www.investment.gov.eg

Ministry of Investment

www.mfa.gov.eg

Ministry of Foreign Affairs

www.capmas.gov.eg

Central Agency for Public Mobilization and Statistics (CAPMAS)

www.egyptse.com

Cairo and Alexandria Stock Exchange

NON-GOVERNMENTAL SITES

www.eces.org.eg

Egyptian Center for Economic Studies

www.amcham.org.eg

American Chamber of Commerce in Egypt

www.erf.org.eg

Economic Research Forum for the Arab Countries, Iran and Turkey

www.us-egypt.org

U.S.-Egypt Business Council

www.arableagueonline.org

Arab League Website

www.egyptbic.com

Biotech info Center –Egypt

www.ndp.org.eg

National Democratic Party (NDP) website

www.fgf-egypt.org

Future Generation Foundation website

www.wto.org/english/thewto_e/countries_e/egypt_e.htm

World Trade Organization website - Egypt Page

www.ahram.org.eg

Al Ahram Newspaper

www.elakhbar.org.eg

Al Akhbar Newspaper

www.gn4me.com/alalamalyoum/index.jsp

Al Alam Alyom Newspaper

STATISTICAL ANNEX

COUNTRY DATA

Population:	70.55 million
Population Growth rate:	1.96%
Religions:	Muslim 90% - Christian 10%
Government System:	Presidential
Languages:	Arabic
Work Week:	Sat.– Wed (gov); Sun-Thurs(bus.)

DOMESTIC ECONOMY

National Accounts

Egyptian fiscal year (July-June)

US\$ billions unless stated otherwise

	FY00/01	FY01/02	FY02/03*	FY03/04**
GDP (current prices, LE billion)	359	379	415	455
GDP (current prices, US\$ billion)	93.3	87.4	80.9	73.9
GDP real growth rate (%)	3.4	3.2	3.1	4.3
GDP/Capita US\$@	1461	1279	1188	986#
Government Spending/GDP (%)	26.8	26.7	27.0	26.9#
Consolidated Fiscal deficit/GDP	2.2	2.5	2.4	2.3#
Inflation (%)	2.4	2.4	3.2	5.5
Wholesale Price Index (% , June of each year unless stated otherwise)	1.3	3.5	18.0	21.4 (4/04)
Unemployment (%)	9.2	9.0	9.9	10.7 (1/04)
Foreign Exchange Reserves (US\$ billion)	14.2	14.1	14.8	14.3
Reserves/months of imports	10.4	11.6	12	10
Avg. Exch. Rate for LE/\$	3.85	4.348	5.13	6.16
End of Period Exch. Rate (June of each year)	3.86	4.51	6.03	6.20
Debt service ratio+ (%)	7.3	9.5	9.8	9.5
Total Foreign Debt/GDP	28.5	32.8	35.6	39.7
U.S. assistance (U.S. Fiscal Year, US\$ billion)	1.995	1.955	1.915	1.875
Military	1.3	1.3	1.3	1.3
Economic	0.695	0.655	0.615	0.575

*Preliminary figures for FY 02/03 unless stated otherwise.

@ IMF Figures.

+ Debt Service is ratio of external debt service to current account receipts.

** As of third fiscal quarter ending March 2004 or latest available data in 2004.

IMF Projection.

Sources: Egyptian government, IMF, World Bank.

Key Sectoral Statistics

	2000	2001	2002	2003
Tourism*				
Revenues (USD million)	4345	3800	3764	4583
Total Arrivals (millions)	5.5	4.6	5.2	6.0
Energy and Petroleum **				
Oil (crude) (avg. thous. barrels/day)	710	639	631	618
Gas (bill. cubic feet/day)	1.7	2.4	2.6	3.3
Electricity (mill. MKH, fiscal years)	72.9	75.6	83.0	91.4
Construction*** (million tons)				
Cement (local sales +exports-imports)	26.4	26.7	28.4	29.0
Steel (production, rebars)	3.2	3.5	3.5	3.1

Agriculture****(million metric tons)				
Wheat	6.4	6.2	6.3	6.5
Rice (milled)	3.9	3.6	3.7	3.9
Sugar	1.3	1.4	1.4	1.3
Cotton (thousand metric tons)	200	310	315	190

* Ministry of Foreign Trade, Ministry of Tourism

** US Dept of Energy, Ministry of Petroleum, Ministry of Electricity (Gas & Elect. figures for fiscal years, oil figures are calendar year)

*** EFG-Hermes, Ezz Steel

**** US Dept. of Agriculture, cotton is marketing year: Aug.-Sep.

TRADE AND INVESTMENT

US\$ millions

	FY00/01	FY01/02	FY02/03	FY03/04*
Merchandise Exports	7078	7121	8205	7404
Petroleum and related products	2632	2381	3161	2851
Cotton and related products	614	526	691	634
Merchandise Imports	16441	14637	14764	12807
Consumer Goods	2865	2779	2593	2093
Intermediate Goods	3972	3702	4396	3604
Capital Goods	3696	3023	3179	2585
Trade Deficit	9363	7517	6559	5403
Services (net)	5588	3878	4907	5379
Tourism Revenues	4317	3423	3796	4155
Suez Canal Revenues	1843	1820	2236	2101
Current Account Balance	(33)	614	1958	2698
Foreign Direct Investment (flow)	509	428	701	184
Portfolio Investment (flow)	261	999	(405)	(0.4)

* Figures for FY 03/04 include first three fiscal quarters (Jul-Mar)

Source: CBE and Ministry of Foreign Trade

US TRADE AND INVESTMENT

Calendar year

US\$ millions

	2000	2001	2002	2003
U.S. Exports to Egypt	3334.1	3564.5	2868.6	2660.2
U.S. Imports from Egypt	887.8	882.3	1355.9*	1143.8
US Trade Balance with Egypt	2446.3	2682.2	1512.7	1516.4
U.S. FDI (stock)	1998	2537	2959	3533

* Includes temporary import of Egyptian antiquities museum touring exhibition, valued at \$445 million.

Source: U.S. Department of Commerce

PROPOSED STATE BUDGET- DRAFT AS PRESENTED TO PARLIAMENT

LE billions

	FY02/03	FY03/04	FY04/05
Total Expenditures	143.01	159.60	177.43
Wages	34.85	38.67	42.55
Current Expenditures, include	73.06	83.64	97.09
Contributions to Pensions	11.55	13.84	15.00
Direct Subsidies (Basic Commodities)	3.59	4.89	11.63
Direct Subsidies (Other)*	3.11	3.10	3.97

Public Debt Service (Principle & Interest)	38.20	45.39	50.21
Other	NA	16.41	16.28
Capital Expenditures, include	35.09	37.29	37.77
Investments	20.42	20.40	20.45
Capital Transfers	14.67	16.89	17.32
Total Revenues	111.48	116.49	125.07
Sovereign Revenues, include	72.16	77.58	83.17
Taxes	31.04	32.93	35.33
Customs	13.89	15.10	15.60
Sales Taxes	20.66	22.65	24.53
Other	6.56	6.89	7.69
Current Revenues, include	25.44	27.73	31.40
Petroleum Surplus	4.51	4.11	4.50
Suez Canal Surplus	4.14	5.08	7.19
Other Economic Authorities Surplus	0.59	0.66	0.70
Companies & Banks Profits	2.40	2.56	2.10
CBE Surplus	4.80	4.8	6.0
Other	9.00	10.52	10.90
Capital Revenues, include	13.87	11.19	10.50
Revenues for Investments	6.33	5.44	5.57
Revenues for Capital Transfers	7.54	5.76	4.94

* Indirect subsidies for FY 03/04: LE 16.7 billion, FY 04/05:LE 23.4 billion.

Source: Ministry of Finance